

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2011-\_\_\_\_-G**

|  |   |                        |
|--|---|------------------------|
| In the Matter Of                           | ) |                        |
|  | ) |                        |
| Application of Piedmont Natural Gas        | ) | <b><u>PETITION</u></b> |
| Company, Inc. for Approval of Modification | ) |                        |
| of Its Experimental Hedging Plan           | ) |                        |

Piedmont Natural Gas Company, Inc. ("Piedmont"), through counsel and pursuant to the settlement reached with the Office of Regulatory Staff ("ORS") and approved by the Public Service Commission of South Carolina ("Commission") on August 10, 2011 in Docket No. 2011-4-G, hereby requests approval of a modification to Piedmont's approved Experimental Natural Gas Hedging Program ("Hedging Program" or "Plan"). The modification of Piedmont's Hedging Program sought in this proceeding is intended to effectuate the ability of Piedmont to hedge its gas costs at levels below the current minimum of 22.5% of annualized sales volumes, including the possibility of placing no hedges at all. Specifically, Piedmont seeks Commission authorization to modify its Plan such that no time-driven hedges will be entered into if the futures price for natural gas, as reflected on the New York Mercantile Exchange ("NYMEX"), is at or above the 60<sup>th</sup> decile level compared to the average historic price of gas as calculated under Piedmont's Plan. In support of this request, Piedmont respectfully shows unto the Commission as follows:

1. Any notices or other communications with respect to this Petition should be sent to:

Jane Lewis-Raymond  
Vice President and General Counsel  
Piedmont Natural Gas Company, Inc.  
P.O. Box 33068  
Charlotte, NC 28233  
Telephone: (704) 364-4261

And

Scott M. Tyler  
James H. Jeffries IV  
Moore & Van Allen, PLLC  
100 N. Tryon Street, Suite 4700  
Charlotte, North Carolina 28202-4003  
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2. Piedmont is incorporated under the laws of the state of North Carolina and is duly authorized by its Articles of Incorporation to engage in the business of transporting, distributing and selling natural gas. It is duly domesticated and is engaged in conducting the business above-mentioned in the states of South Carolina, North Carolina and Tennessee. Piedmont is a public utility under the laws of this State, and its public utility operations in South Carolina are subject to the jurisdiction of this Commission.

3. In Order No. 2002-223, issued on March 26, 2002, this Commission approved Piedmont's Experimental Natural Gas Hedging Program pursuant to which Piedmont was authorized to engage in certain natural gas hedging transactions in order to attempt to help stabilize the price of natural gas paid by South Carolina customers served by Piedmont. Piedmont's Plan, as approved by the Commission, is non-speculative in nature leaving only very limited discretion to the Company in its operation. The Plan limits the amount of Piedmont's gas supplies that can be hedged to up to specified percentage of normalized annual sales volumes.

4. Since the issuance of Order No. 2002-223, Piedmont has requested minor modification of its Hedging Program on several occasions, most recently requesting a reduction in the percentage of annual gas supplies that can be hedged from a range of 30% - 60% of annualized sales volumes to a range of 22.5% - 45%. This request followed a prior request to reduce the window for which hedges are placed under the Plan from 24 months to 12 months. These modifications were requested, in part, on the basis of Piedmont's evaluation that market conditions in the wholesale commodity market for natural gas were more stable than they had

been previously and that the requested modifications were appropriate to align Piedmont's Plan with such changed market conditions. These modifications to the Plan were approved by the Commission in each instance and Piedmont has operated in conformance with its modified Plan.

5. Prior to the filing of Piedmont's annual prudence testimony and exhibits this year, the ORS made a suggestion to the Commission that it direct Piedmont and other utilities subject to the Commission's jurisdiction to cease hedging activities with respect to the price of its gas supply. This recommendation was based on an assessment that the forward-looking supply curves for commodity gas costs were sufficiently flat that the benefits of hedging were not likely to outweigh the costs on a going forward basis. Piedmont's view on this issue, as expressed to the Commission, was that while it believed that ORS' position was a reasonable conclusion to reach based upon the market information available, Piedmont still believed that hedging at the reduced level resulting from the prior modifications to its Plan still had value, particularly in providing protection against disaster type events.

6. This subject was addressed between ORS and Piedmont in settlement discussions in Docket No. 2011-4-G and the parties agreed to a further modification of Piedmont's Hedging Program that would allow for the possibility of placing no hedges in certain circumstances. This proposed change to Piedmont's Plan was included in the settlement agreement filed in that docket and was approved by the Commission on August 10, 2011.

7. In conformance with its agreement with the ORS and the Commission's directive approving that agreement, Piedmont hereby proposes a modification of its Hedging Program that will allow for hedging at levels below the current minimum of 22.5% of annualized sales volumes. Specifically, Piedmont proposes to modify the time-driven component of its Hedging Plan such that no hedges will be placed for any period where the futures price of natural gas is at or above the 60<sup>th</sup> decile level of the historic average price of gas as determined by

Piedmont's Plan. This change will allow Piedmont not to hedge gas costs under the time-driven component of its Plan when prices are unfavorable from a historic perspective. This modification to Piedmont's Plan will reduce the potential costs of the Plan without substantially increased risk to customers.

8. Piedmont's Energy Price Risk Management Committee ("EPRMC"), which supervises activity under the Plan, has approved the proposed modification to the Hedging Plan requested herein.

9. Piedmont intends to apply the changes proposed herein on a prospective basis upon approval by the Commission but does not propose to apply the changes retroactively. Accordingly, all hedging positions taken by Piedmont as of the date of approval by the Commission will remain in place.

10. Piedmont submits that the Plan modification proposed herein is in the public interest for the reasons set forth above and requests approval for such Plan modification.

WHEREFORE, Piedmont Natural Gas Company, Inc. respectfully requests that the Commission grant authorization for Piedmont to implement the modification to its Experimental Natural Gas Hedging Program described above at the Commission's earliest convenience.

Respectfully submitted, this the 7th day of October, 2011.

**PIEDMONT NATURAL GAS COMPANY, INC.**

s/ Scott M. Tyler  
Scott M. Tyler

OF COUNSEL:

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